

# EFTPS

## Electronic Federal Tax Payment System

The crucial role of awareness and familiarity in increasing usage



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# INTRODUCTION

## BACKGROUND

The Electronic Federal Tax Payment System (EFTPS) provides tax professionals, small businesses and individuals a free electronic way to pay federal taxes. The service is jointly offered by two bureaus of the U.S. Department of the Treasury—the Internal Revenue Service (IRS) and the Financial Management Service (FMS).

EFTPS offers taxpayers the convenience and flexibility to make federal tax payments over the Internet or by telephone, rather than the traditional process of using paper coupons. Paying taxes electronically benefits tax payers because it reduces the probability of errors and helps them avoid penalties.

Since EFTPS was introduced in 1996, more than 5.5 million taxpayers have enrolled in the system and 488 million payments totaling more than \$11.6 trillion have been collected. It is clear, however, that many more individuals and small- to medium-sized businesses could also benefit from using the system. The IRS and FMS are committed to increasing EFTPS usage.

To better understand the issues surrounding federal tax payment preferences, the IRS and FMS in 2003 initiated a market research study of the barriers to enrolling in and using EFTPS. This study was designed to determine how well EFTPS was known and how best to

increase usage by tax professionals, small businesses and individuals. It also sought to understand what messages might persuade these groups to use EFTPS. The Federal Reserve Bank of St. Louis, acting as fiscal agent of the U.S. Department of the Treasury, contracted with Wirthlin Worldwide (now part of Harris Interactive), a research-based consulting firm, to conduct qualitative and quantitative research on increasing the usage of EFTPS.

## PROJECT SCOPE AND RESEARCH OBJECTIVES

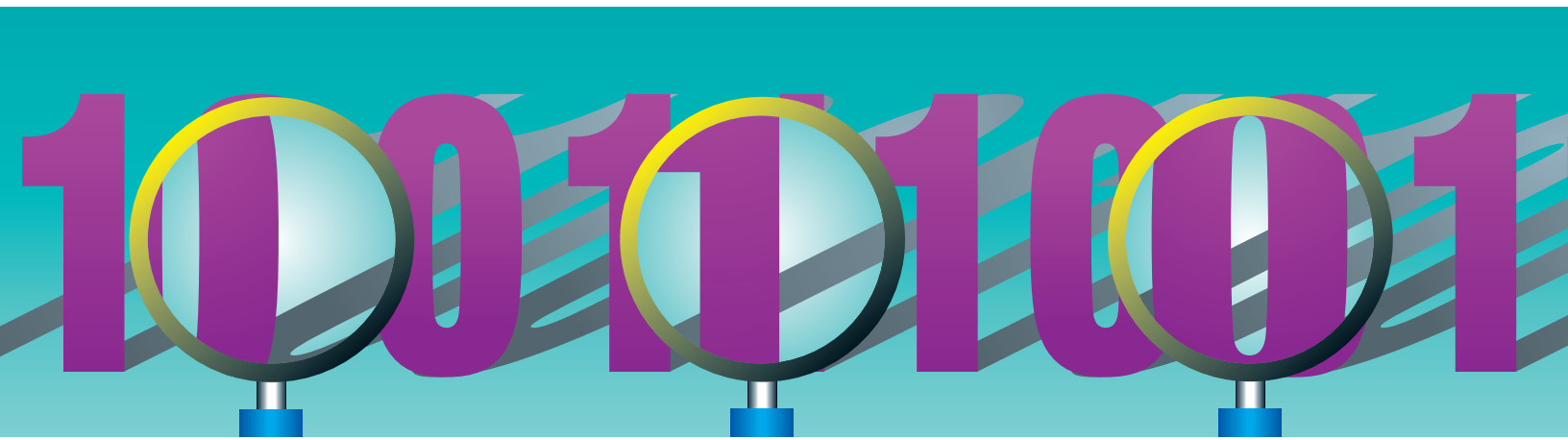
The EFTPS research study was conducted in two phases: qualitative research, which concluded in late 2003, and quantitative research, which was completed in 2004.



The specific objectives of the research were to:

- understand the factors that currently facilitate or are barriers to EFTPS usage for individuals, small businesses and tax professionals;
- assess specific factors that may be leveraged to enhance EFTPS usage;
- provide a foundation for a communications framework for EFTPS initiatives; and
- assess the role of tax professionals in influencing people's use of EFTPS.

Using a unique approach, the research sought to identify the personal values that relate to EFTPS usage and how those values relate to payment preferences among the target audiences. This approach, called values-based research, establishes linkages from the rational process of decision-making to the emotional consequences associated with those choices. The values and other important elements are first identified in the qualitative study and then measured in the quantitative study.



## EFTPS FACTS

Taxpayers who pay by check are about 30 times more likely to have tax penalties assessed against them than those who use electronic forms of payment.

EFTPS uses the most advanced security measures available to protect information.

The EFTPS system allows users to schedule payments in advance, any time of day, any day of the week, from any location.

EFTPS issues an Acknowledgement Receipt Number confirming that payment instructions have been received. In addition, an EFTPS-OnLine user can access and print up to 16 months of payment history. A taxpayer who makes a payment via phone using the Voice Response System (VRS) will receive an Acknowledgement Receipt Number and can also check payment history.

# QUALITATIVE STUDY

## METHODOLOGY

The qualitative research phase utilized Advanced Strategy Labs™ (ASL), a proprietary research approach from Wirthlin Worldwide. The ASL methodology collected individual data in a group setting using separate computers and group discussion. This approach allows each participant to respond to questions anonymously via a computer—thereby preserving the integrity and confidentiality of responses—while also allowing for group interaction and brainstorming. The interview process uses a series of brainstorming questions and laddering techniques designed to string together responses that help map a respondent's thought process. The data that result show the linkages between the rational and emotional elements of decision-making.

## PARTICIPANT CRITERIA

### *Tax professionals: 40 participants*

- Owner of small tax firm or a senior tax accountant/account executive in a medium-sized firm
- Mix of firm sizes (excluding the six largest accounting/tax preparation firms)
- Client base of individuals and small businesses

### *Small businesses: 56 participants*

- Annual tax liability of \$2,500 to \$200,000
- Decision-maker on how taxes are paid for the business
- Mix of industries (service, manufacturing, whole-sale/retail trade, other)
- Mix of companies, by size of their revenue and number of employees
- Mix included minority- and woman-owned businesses

### *Individuals: 40 participants*

- Pay estimated taxes more frequently than once a year
- Mix of occupations (service, manufacturing, whole-sale/retail trade, other)
- Mix of demographics, including race and ethnicity
- Target individuals over age of 40
- File as individuals, jointly with spouse or as a sole proprietor, S corporation or partnership

A total of six ASL sessions were conducted in two cities—Houston and New York. Most sessions had 20 participants and lasted approximately three hours.



## KEY FINDINGS

**Lack of awareness and familiarity with EFTPS is a significant barrier.** Most individual and small business respondents were either unaware of EFTPS or were confused about the service and its functionality. Their concerns resulted from a lack of knowledge

and concern about the security of personal information. Tax professionals were more aware of EFTPS, but some lacked understanding of how to use the system. They expressed concerns about the enrollment process and their clients' ability to pay taxes online.

**Tax professionals are important catalysts to increasing EFTPS usage.** Nearly all of the tax professionals participating in the ASLs indicated that they make tax payment recommendations to their clients, and most individuals and small businesspersons indicated that they use tax professionals. Tax professionals consider the relationships with their clients to be very important. Those who believe EFTPS provides valuable benefits to their clients are inclined to recommend the service.

**The impact of float on cash flow is an important consideration of those representing small businesses.** Many realize the float advantage to

writing a check, and this period of float is part of their cash flow management. Small-business respondents were also concerned about payment verification, which they felt was provided by a canceled check.

**Individuals are primarily concerned about verification of payment and security of personal information, and small businesses share this concern.** Verification of payment includes confirmation that the payment has been made and was debited from the bank account. In addition, some kind of proof of payment was considered important in case of a dispute with the IRS. To date, the canceled check has satisfied these concerns and provided a sense of control over the tax payment process. Some form of proxy for the check, such as a printable receipt, was likely to alleviate this concern. Individuals are also concerned about the security of their personal communication and online information, as well as who at the IRS has access to their information.





# QUANTITATIVE STUDY

## METHODOLOGY

The quantitative phase of the EFTPS research study was a nationwide telephone survey of tax professionals, individuals and those representing small businesses. The surveys were conducted in early 2004 with 1,500 randomly selected people from key audience groups. The average interview length was 20 minutes.

## PARTICIPANT CRITERIA

### *Tax professionals: 500 participants*

- File at least 25 returns per year
- CPAs, accountants, tax accountants, tax preparers
- Mix of firm sizes (excluding the six largest accounting/tax preparation firms)
- Client base of individuals and small businesses

### *Small businesses: 600 participants*

- Annual tax liability of \$2,500 to \$200,000
- Decision-maker on how taxes are paid for the business
- File taxes under an Employer Identification Number
- Mix of industries
- Mix included minority- and women-owned businesses
- 25 percent were already enrolled in EFTPS

### *Individuals: 400 participants*

- Must make at least two estimated tax payments per year

- Primary or joint decision-maker on how taxes are paid for the household
- Includes individual taxpayers and those who file as a sole proprietor, S corporation or partnership
- Mix of ages, occupations and demographics

The error due to sampling at the 95 percent confidence level is +/- 4.9 percentage points for the individuals group, +/- 4.4 percentage points for the tax professional group and +/- 4.0 percentage points for the small business group.

## RESEARCH OBJECTIVES

Building on the results of the ASL sessions, this study was designed to:

- quantify the levels of awareness and familiarity;
- measure reactions to proposed initiatives to increase EFTPS usage;
- measure the prevalence of barriers identified;
- more fully understand the role of tax professionals and other influencers of the tax payment method;
- explore the role and perception of the IRS; and
- assess the overall favorability of EFTPS across the target audience.

## KEY FINDINGS

### *Familiarity with, and Favorability toward, EFTPS*

#### **Unprompted awareness is low among all groups.**

The survey revealed a need to build awareness and

familiarity of EFTPS among all groups of the target audience. Only 30 percent of tax professionals, 10 percent of small businesses and 5 percent of individuals surveyed mentioned EFTPS by name. When asked about options for paying electronically, many others mentioned more general electronic means of payment, such as credit cards, electronic filing of tax forms and the Internet. *Nearly half (46 percent) of the individuals surveyed reported no knowledge of any electronic means for tax payment.*

**Tax professionals are the most familiar with EFTPS; however, familiarity is lacking among small businesses and individuals.** More than half (51 percent) of tax professionals report that they are somewhat familiar with EFTPS, and a smaller percentage (29 percent) are very familiar. Among small businesses, 43 percent are familiar with EFTPS. Among individuals, few (12 percent) have any familiarity, and nearly half (44 percent) have never heard of EFTPS.

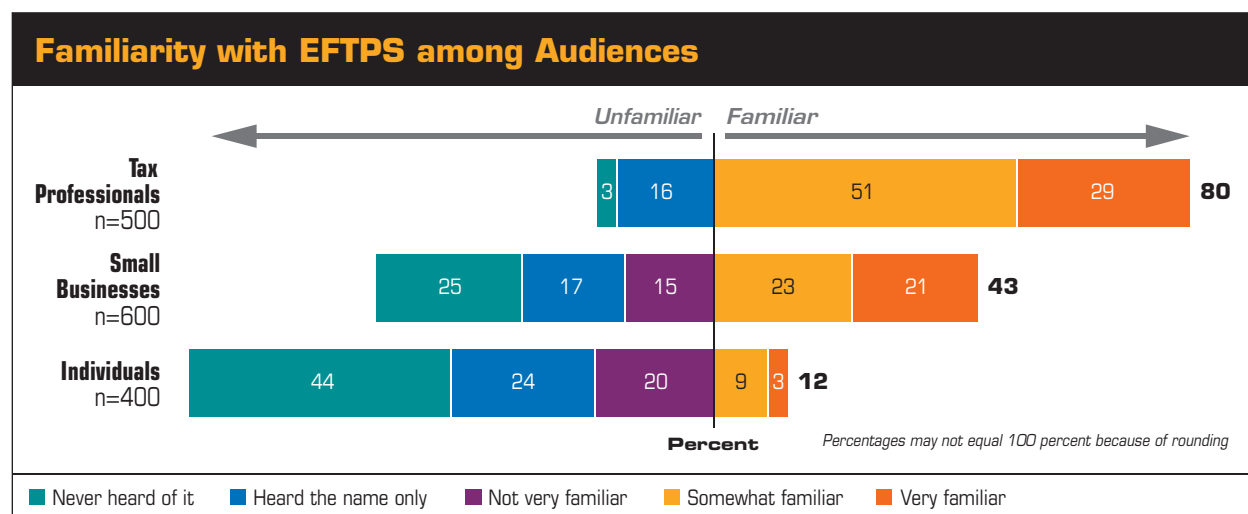
**Overall, reactions to EFTPS are generally positive for tax professionals and small businesses.** Nearly half of tax professionals and small businesses are highly favorable toward EFTPS; however, individuals are significantly more cautious

about EFTPS. **Familiarity with EFTPS is tied to favorability.** Among all audiences, those already very familiar with EFTPS are significantly more likely to be highly favorable than those who are unfamiliar.

### *The Role of Tax Professionals*

**Tax professionals have a great deal of influence in the tax payment process.** Tax professionals are protective and concerned about their client relationships and are more likely to recommend electronic methods of payment if their clients convey interest. Nearly all tax professionals make recommendations to their clients and believe their clients accept them. Most clients agree with this assessment: More than three-quarters of small businesses and individuals say they are very likely to accept their tax professionals' recommendations.

**The vast majority (92 percent of small businesses and 85 percent of individuals) use tax professionals.** Among those who use tax professionals, the majority report that the decision on how tax payments are made is a joint effort between themselves and their tax professionals. Nearly one-third of tax professionals have made tax payments on behalf of their clients using EFTPS.





## The Role of Tax Professionals in Making Recommendations

How often do you make recommendations about how to pay federal taxes?

How often do clients accept your recommendations?

47



Very Often

28



Somewhat Often

20



Rarely

4



Never

Percent



62

32



4



0

Percent

Percentages may not equal 100 percent because of rounding • Base: Tax Professionals (n=500), Tax Professionals Who Recommend (n=476)

### Perceptions of Check Payments vs. Electronic Payments

The quantitative research measured the importance of certain attributes to respondents when making decisions about tax payments. The results very clearly indicate that *security of payment information, avoiding late payment penalties, receiving verification of payment* and *having a fast and easy process* are critically important.

Tax professionals are more likely to associate these important attributes with electronic payment. However, *my clients are comfortable with the process* is very strongly linked with payment by check. The chart below shows that protecting the client relationship supersedes recommending electronic payment.

Small businesses and individuals still attribute the important variable of *security* to checks. Individuals

## Importance of Attributes When Making Decisions about Tax Payments

(Mean importance using 1-10 scale, with 10 being most important)

Attribute	Tax Professionals n=500	Small Businesses n=600	Individuals n=400
Payment and client/personal company info is secure	8.6	8.8	8.7
Avoiding late payment penalties	8.5	8.6	7.8
Receive proof of payment	8.4	8.0	7.7
Payment process is fast and easy	7.9	8.1	7.1

are also more likely to equate verification of payment with checks rather than electronic payments.

*Perceptions of Transition to Electronic Payment*

**The enrollment process does not appear to be a barrier among tax professionals or small businesses.** Tax professionals and small businesses overwhelmingly report that the EFTPS enrollment process is straightforward and easy—not difficult and confusing. Individuals, on the other hand, are likely to find the enrollment process daunting—41 percent find the process difficult and confusing.

**Nearly every small business surveyed (98 percent) owns a computer and has access to the Internet.** This reflects familiarity with computers and software applications among the target audience, which indicates that making the transition to EFTPS would not be expensive or difficult for taxpayers.

Concerns about float identified in the qualitative study were not replicated in the quantitative study.

How Respondents Attach Attributes to Form of Payment			
Attribute	Tax Professionals n=500	Small Businesses n=600	Individuals n=400
Payment and client/personal company info is secure	Electronic	Check	Check
Avoiding late payment penalties	Electronic	Electronic	Neither
Receive proof of payment	Electronic	Electronic	Check
Payment process is fast and easy	Electronic	Electronic	Neither

# SUMMARY AND CONCLUSIONS

Clearly, EFTPS is early in the adoption curve for small businesses and individuals. Building awareness and familiarity through educational efforts will be effective in boosting the use of EFTPS. Specifically, increasing the knowledge of, and comfort level with, the security of both the EFTPS system and taxpayers' personal information will likely overcome concerns stemming from a lack of understanding.

Also important to consider is the critical role of tax professionals. Tax professionals realize a sense of accomplishment when their clients view them as helpful and perform their responsibilities well. Tax professionals report making recommendations on payment issues to their clients, and the clients in turn report that they usually agree with the recommendations. Thus, encouraging tax professionals to educate their clients on the benefits of electronic payment would likely lead to greater use of EFTPS. At the same time, communicating directly with small businesses and individuals will be important to gain trust and help motivate tax professionals to encourage their clients to use EFTPS.

Acceptance of EFTPS could be facilitated if small businesses understand how the service will increase their efficiency. Increased efficiency, as demonstrated in the values-based research, leads to a sense of control, security and peace of mind concerning their businesses.

Because familiarity is tied to favorability among all audiences, the potential for growth in EFTPS usage is

tremendous with an aggressive communications program. And the payoff is clear. As usage of this electronic payment method increases, the number of paper payments processed will decrease, resulting in significant cost savings for the government. Tax professionals, small businesses and individuals will benefit from greater accuracy, timeliness and efficiency of tax payments.



